Assisting Students and Families in Making Smart Postsecondary Education Decisions

College affordability and student loan debt burden are important issues on the minds of our nation's students and families. According to recent statistics, federal student loan debt totals nearly $1.3 trillion, an amount that policymakers and some economists have cited is negatively impacting the ability of student borrowers to achieve postsecondary success, own a car, buy a house, or start a family. According to the U.S. Department of Education, over 11 percent of borrowers who took out a federal student loan defaulted on that loan within three years, a percentage that continues to be unnecessarily high.

As states and institutions of higher education work to control college costs and improve quality, students, borrowers, and families need access to personalized financial education and debt management services to assist them in making good educational choices and understanding, managing, and paying for the costs of a postsecondary education. State-based and state-affiliated nonprofit higher education agencies, including lenders, loan holders, servicers, and guaranty agencies, have been highly successful in providing these important services for decades. These agencies counsel students and families on early awareness of the variety of educational choices available beyond high school and creating a college-going culture, the appropriate courses to take in high school to facilitate entering the college major or career program of their choosing, how to apply for college and navigate the financial aid process, how to avoid overborrowing and the importance of managing student loan debt, as well as budgeting and personal finance management skills. In many instances, these services are proactively provided to student and parent borrowers at risk of default. Recent data compiled on the specialized delinquency and default prevention services that some NCHER members are providing to colleges and universities have shown significant reductions in institutional cohort default rates. However, these important services are largely going away, and some have already been eliminated, because of a lack of sustained resources.

Under the Higher Education Act, institutions are required to provide basic entrance and exit counseling such as ensuring that students know they have taken out loans, they are obligated to repay those loans, and of the availability of various repayment options. However, numerous reports, including studies by Texas Guaranteed, the National Association of Student Financial Aid Administrators, and Young Invincibles, make it clear that the current counseling sessions are failing to fully engage students in understanding their responsibilities and full range of options. The Department of Education has also recognized the need for better and alternative methods of counseling through an Experimental Sites Initiative that will allow postsecondary institutions to evaluate certain innovative loan counseling practices. A limited number of participating institutions will have the flexibility to require additional counseling beyond the statutorily-required one-time entrance and exit sessions and to customize counseling based on students' needs.

NCHER Reform Proposals

The National Council of Higher Education Resources (NCHER) believes that all students should receive personalized financial education and debt management services to help them choose their college and career path, understand how to pay for their educational costs, and realize postsecondary education access and success. We urge Congress to promote student success by:

- <u>Providing pre-college, in-school, and post-college financial education and debt management services to students, borrowers, and families to help them make knowledgeable decisions</u>. Under this proposal, which could be incorporated into any financial literacy or risk-sharing initiative, Congress would require states and/or institutions to implement career, financial education, debt management, and delinquency and default prevention services, defined as:

- Career counseling activities so each student is aware of his/her career options, including in-demand occupations, and receives a good-faith estimate of how much he/she is expected to earn every year and throughout his/her lifetime in the field of study.
- Educational goals beyond high school designed to help students achieve their career objectives.
- Background and information on availability of financial aid (grants, scholarships, work-study options, and other alternatives to borrowing).
- Comprehension of student loan and budgeting basics, including understanding the importance of good credit and scores.
- Debt management activities so borrowers know estimated loan payment amounts under various repayment plan options.
- Delinquency and default prevention activities, including counseling and other specialized services, so borrowers understand the consequences of default, and their repayment, deferment, or loan forgiveness options.

Such services would be provided by colleges and universities in partnership with higher education agencies with demonstrated records of expertise. Such services would have to be provided annually, ensuring robust counseling is provided to students and parents during in-school periods. States and/or institutions would be required to report annually to the Department of Education on the financial education and debt management services provided to students and families. The Department would be required to conduct an independent evaluation and oversight of such services.

- Strengthening existing entrance and exit counseling requirements. Current entrance and exit counseling provisions provide limited help to students struggling to manage their student loan debt. Congress should support H.R. 1635, the "Empowering Students through Enhanced Financial Counseling Act," authored by Rep. Brett Guthrie (R-KY) and Rep. Suzanne Bonamici (D-OR), which requires institutions to provide annual counseling to all student and parent borrowers so they better understand their financial obligations. However, Congress should also ensure that such counseling is personalized to the individual's unique financial circumstances, require borrowers to affirmatively accept the terms of their loans, and reject proposals that simply rely on the Department of Education's online counseling tool. As noted above, over the past 50 years, higher education agencies have a proven track record of success in assisting families plan and pay for college as well as counseling borrowers during the repayment process. The collective experience from decades of financial counseling suggests that the most effective means of assistance is having conversations with student and parent borrowers to answer their specific questions and tailor information to their unique circumstances.

- Promoting the use of 529 Plans. Nearly every state in the country has a 529 College Savings Plan, which is designed to help families set aside funds and save for future college costs. 529 Plans - both prepaid tuition plans and college savings plans - are important tools used by millions of American families to meet the increasing costs of postsecondary education. In 2015, Congress passed the Protecting Americans from Tax Hikes Act, which expanded the definition of qualified higher education expenses to include computer equipment and technology, allowed refunds of qualified higher education expenses to be recontributed to a qualified tuition plan without triggering tax consequences, and reformed certain reporting requirements. During the upcoming reauthorization of the Higher Education Act, Congress should build on these important tax reforms by ensuring that students and families are aware of the availability of 529 Plans and their role in accessing postsecondary education, and exempting a certain percentage of the assets held in 529 Plans from federal financial aid calculations.

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